



Canada | Q3 2020

Research

Office Outlook

The fragile return of leasing activity in Q3 is bookended by a second wave of COVID-19 and the largest quarterly occupancy loss in over a decade

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The health, policy, economic and financial disruption stemming from the COVID-19 pandemic continue to create a fluid and evolving environment for all real estate sectors. Uncertainty remains around market performance and implications will differ by market and sector.

Top **3** office trends

1. Significant uptick in vacancy as tenants adopt more widespread WFH models

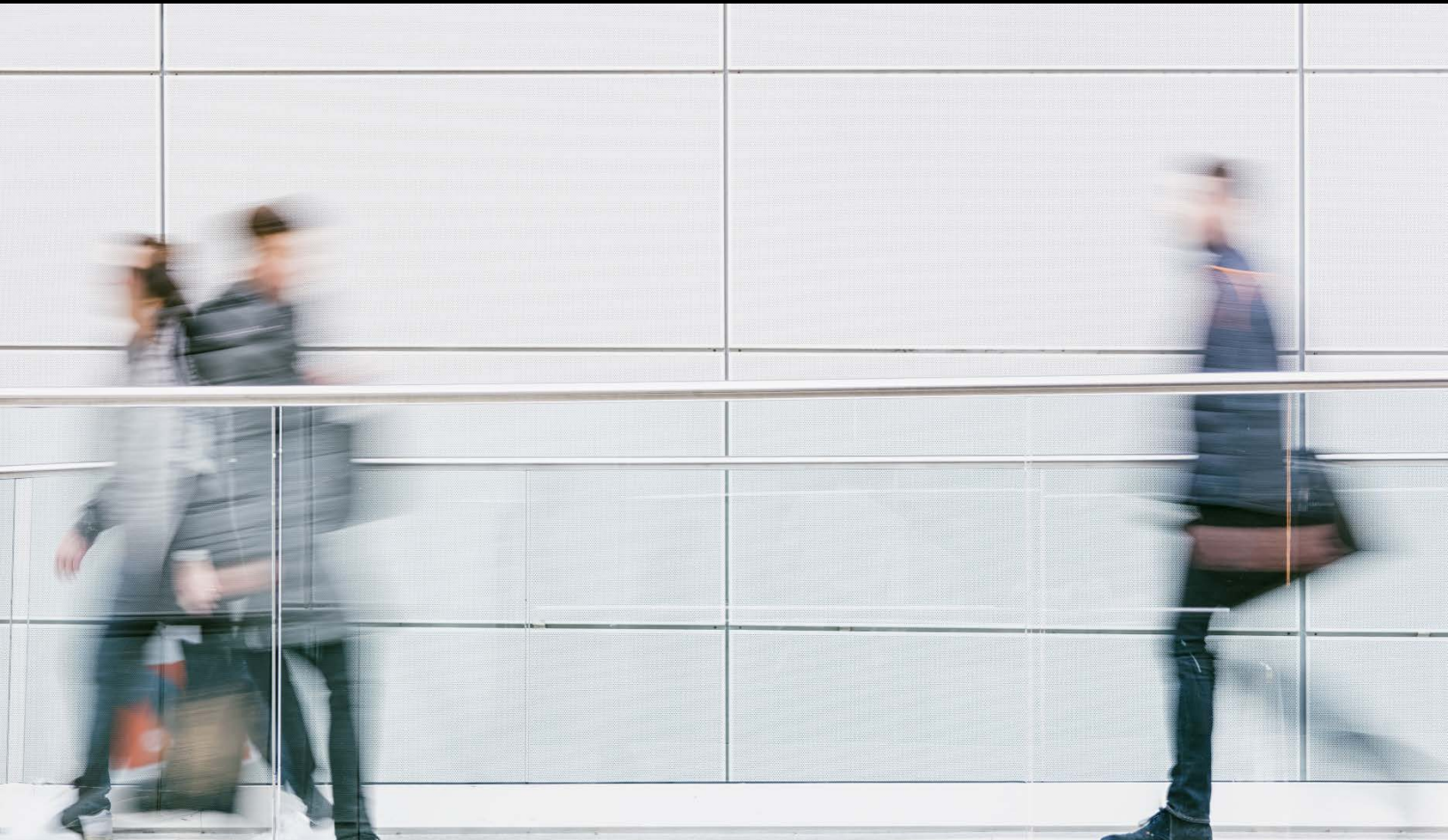
In Q3, the Canadian office market experienced its largest negative quarterly net absorption in over a decade, totaling nearly 2.7 million square feet of occupancy losses as total vacancy rose 60 basis points to 10.8 percent.

2. Fragile return of leasing activity in the late summer months

Canadian markets saw a slight return of large block demand (20,000 square feet or over) after the drastic slowdown in Q2, driven primarily by Energy, Financial Services, and Technology occupiers in Toronto, Calgary, and Montréal.

3. Most CBD markets remain landlord-favourable but are at a critical junction

With the exception of Alberta, most Canadian downtown markets continue to boast historically low vacancy rates, with a national CBD vacancy of 10.8 percent compared to US markets facing 13.7 percent. Toronto, Vancouver, and Montréal comprise three of the tightest CBD markets in North America.





The Canadian labour market continued to recover from a previous unemployment rate peak of 13.7 percent in May 2020. As of the end of September 2020, the total unemployment rate had dipped below the double digits for the first time since the pandemic began, currently at 9.0 percent. However, this rate is still a historical high, above the 20-year average of 7.0 percent as well as the previous all-time low of 5.5 percent recorded in January 2020. Over 1.1 million jobs have been added to the market since Q2. Continuing the trend from last quarter, industries

that were hit hardest by the initial lockdowns saw the highest quarterly recoveries, such as accommodation and food services (72.4%) and arts, entertainment, and recreation (67.5%). Conversely, job losses in office-using sectors amount to only 11.9 percent of total job losses since the beginning of the pandemic. Accordingly, office-using sectors saw slower levels of quarterly recovery, such as finance and insurance (0.9%), professional, scientific, and technical services (4.8%), and real estate, rental and leasing (11.7%).

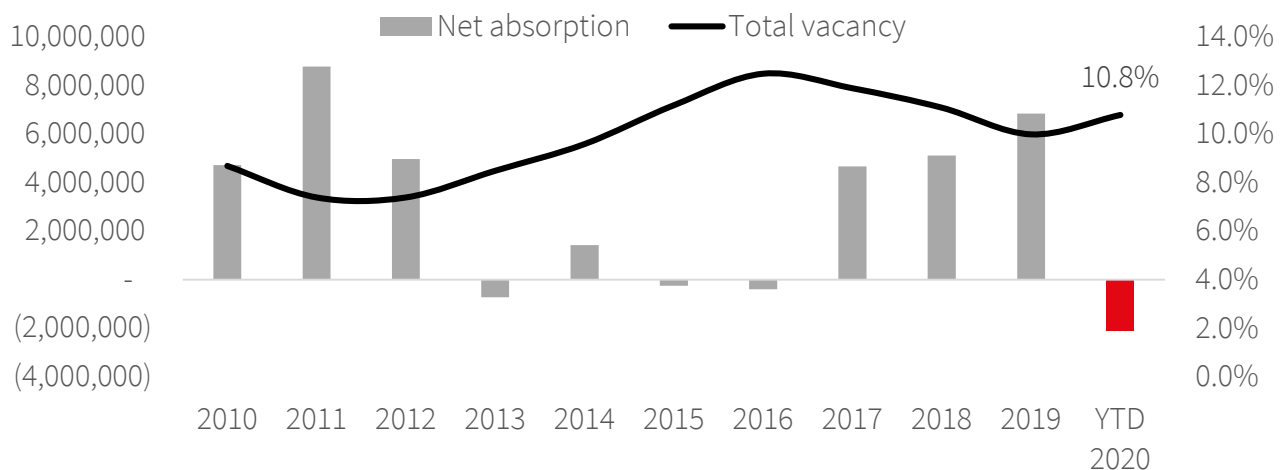
Canada posts its largest quarterly occupancy loss in over a decade

After markets like Edmonton and Montréal bucked the trend of occupancy losses in Q2, all Canadian markets posted negative quarterly net absorption in Q3, contributing to a total of just under 2.7 million square feet of net occupancy losses across the country. This has pushed vacancy up 60 basis points to 10.8 percent, the largest quarterly increase since before 2010. The increase was overwhelmingly driven by the Downtown markets, which contributed 60.0 percent of occupancy losses through new sublease vacancies and direct availabilities turning vacant amidst low levels of leasing. The suburban markets, which had proven to show some resiliency until now, are also beginning to see upticks in vacancy. Q3 2020 was the first quarter in which suburban markets have seen negative quarterly net absorption since Q2 2019. Tellingly, year-to-date net absorption for the

suburbs remains positive at nearly 770,000 square feet absorbed, whereas Downtown markets have lost roughly 2.8 million square feet over the same period. However, the current total vacancy rate of 10.8 percent remains relatively low compared to the past few years of performance. The previous bottom of 9.9 percent was recorded in Q1 2020 while the previous peak of 12.6 percent was recorded in Q2 2017, owing primarily to the effects of the oil crisis on Albertan markets. Currently, total vacancy in the Downtown markets of Toronto, Vancouver, and Montréal remain historically low. In fact, these Downtown markets comprise three of the most supply-constrained CBD markets in all of North America. Downtown Toronto (3.8%) is the tightest CBD market in North America, with Downtown Vancouver (5.7%) at second place and Downtown Montréal (7.7%) at fourth place.

Negative net absorption in Q3 brought the Canadian office market back to 2018 levels of vacancy

Net absorption (s.f.) and total vacancy (%)



Source: JLL Research



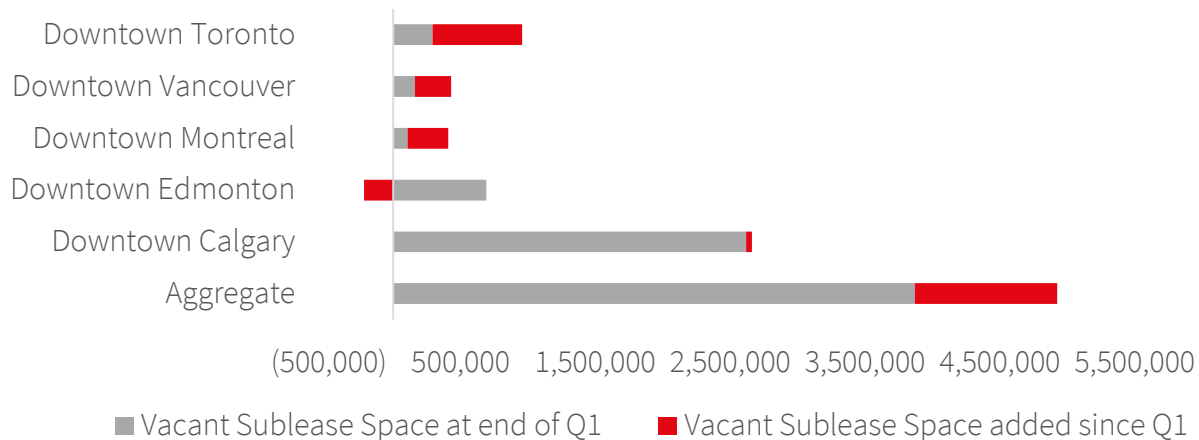
Sublease space remains a significant driver of increasing vacancy, but gross absorption tells a different story

The sublet market continues to grow significantly, with a total of 1.9 million square feet added since Q1, evenly split between the second and third quarters. Based on starting figures in Q1, the nominal and percentage increases have been significant for most markets. However, as a percentage of inventory, total national sublet vacancy remained muted at a meager rate of 1.7 percent. Moreover, the COVID-19 pandemic has further emphasized the market differences between the services-based markets of Toronto, Montréal, and Vancouver and the energy-based markets of Calgary and Edmonton. Although the Albertan markets contain some of the largest sublets in the country, these sublets were added well before COVID-19 and owe more to the oil crisis of 2014 to

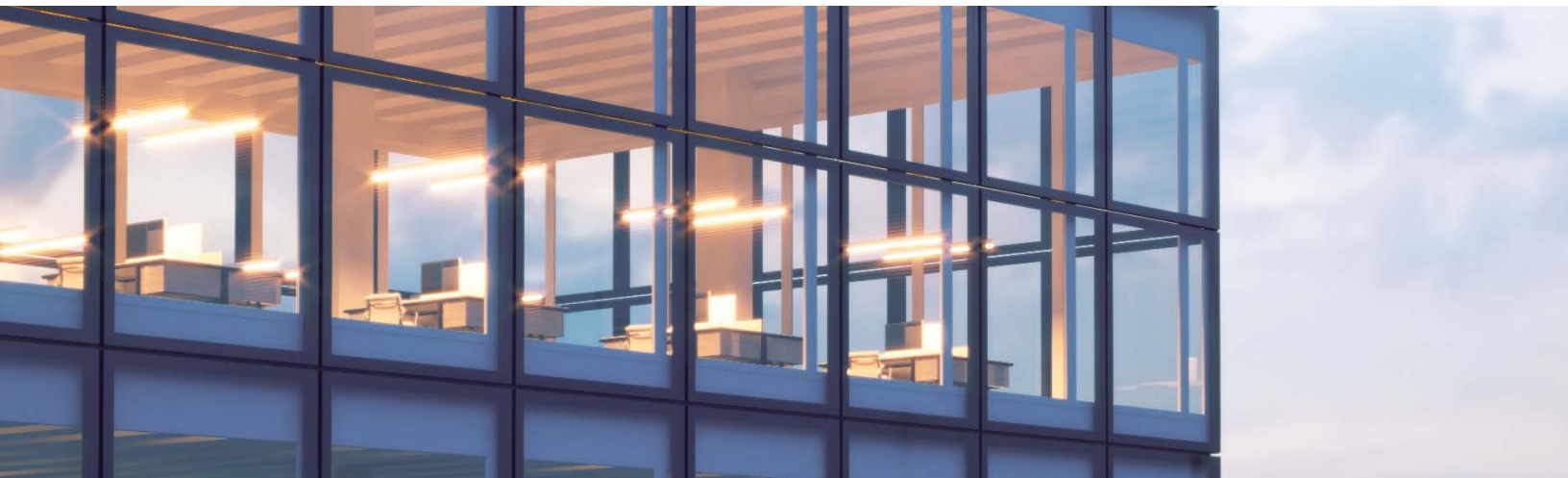
2016. In fact, while Calgary has seen little movement in sublet vacancy since Q1, Edmonton has seen continuous decreases in sublet vacancy over the same time period. New sublets added since the inception of the pandemic are overwhelmingly concentrated in the Downtown markets of Toronto, Vancouver, and Montréal. As a proportion of the 1.9 million square feet of new sublet space, Downtown Toronto makes up 34.8 percent, while Downtown Montréal and Downtown Vancouver make up 15.7 percent and 14.1 percent respectively. However, in Q3, sublet vacancy as a percentage of local market inventory remained minimal in Downtown Toronto (1.3%), Downtown Vancouver (1.6%), and Downtown Montréal (0.8%).

Sublet vacancy in CBD markets remains muted as a percentage of market inventory

Change in sublease vacancy since Q1 (s.f.)



Source: JLL Research



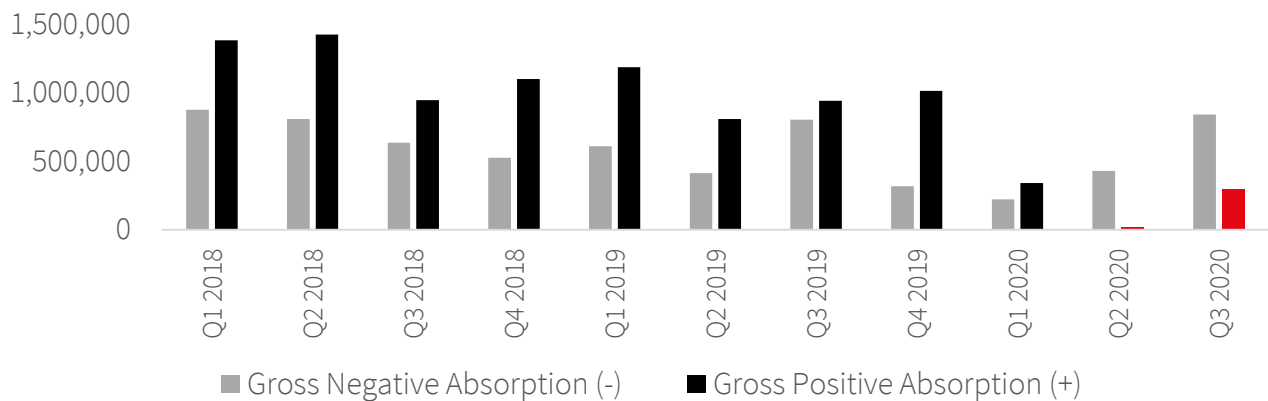


In addition, further analysis of gross absorption figures suggests that the uptick in vacancy amidst the pandemic owes less to the volume of space being added to market and more to the manufactured shutdown of leasing activity and gross positive absorption after the lockdowns began in late March. The gross negative absorption seen over the second and third quarters remain largely within historical

market range, even when the MTV markets (Montréal, Toronto, and Vancouver) were experiencing their upswing stage in the past few years. The key difference that has led to current market conditions is the drop-off in leasing volumes and gross positive absorption, especially in Downtown Toronto, which has seen the largest year-to-date occupancy losses of any Canadian market, totaling 1.4 million square feet.

Low levels of demand significantly emphasized gross negative absorption in Q2 and Q3

Gross positive and negative absorption (s.f.) in Downtown Toronto



Source: JLL Research

Most markets see a fragile return of leasing in Q3 but expect rising COVID-19 cases to dampen tenant sentiment

A promising indicator in the third quarter was a fragile but substantial return of leasing activity. After the near-complete stall of leasing activity in Q2, national large block (20,000 square feet or above) leasing volumes increased by over 58.0 percent quarter-over-quarter, for a total of over 1.6 million square feet leased. Although volumes remain low compared to the last four years, the uptick suggests increasing tenant confidence, with many transactions representing new or growing moves. Toronto and Calgary saw the largest quarterly increases in leasing activity. Significant leases signed in Q3 include Symend's 74,000-square-foot lease and

Userful's 27,000-square-foot lease at 411 1st St. SW, in another promising sign for the diversification of Calgary's tenant industry mix. Université de l'Ontario français is set to open their first location in Toronto, leasing 62,000 square feet in a net new transaction at 9 Lower Jarvis Street. Ontario Centres of Excellence will take over the OneEleven startup hub from Oxford Properties and will backfill roughly half (48,000 square feet) of the incubator's space at 325 Front Street West. The OneEleven block of roughly 108,000 square feet was the largest single space added to the Toronto market in Q2.

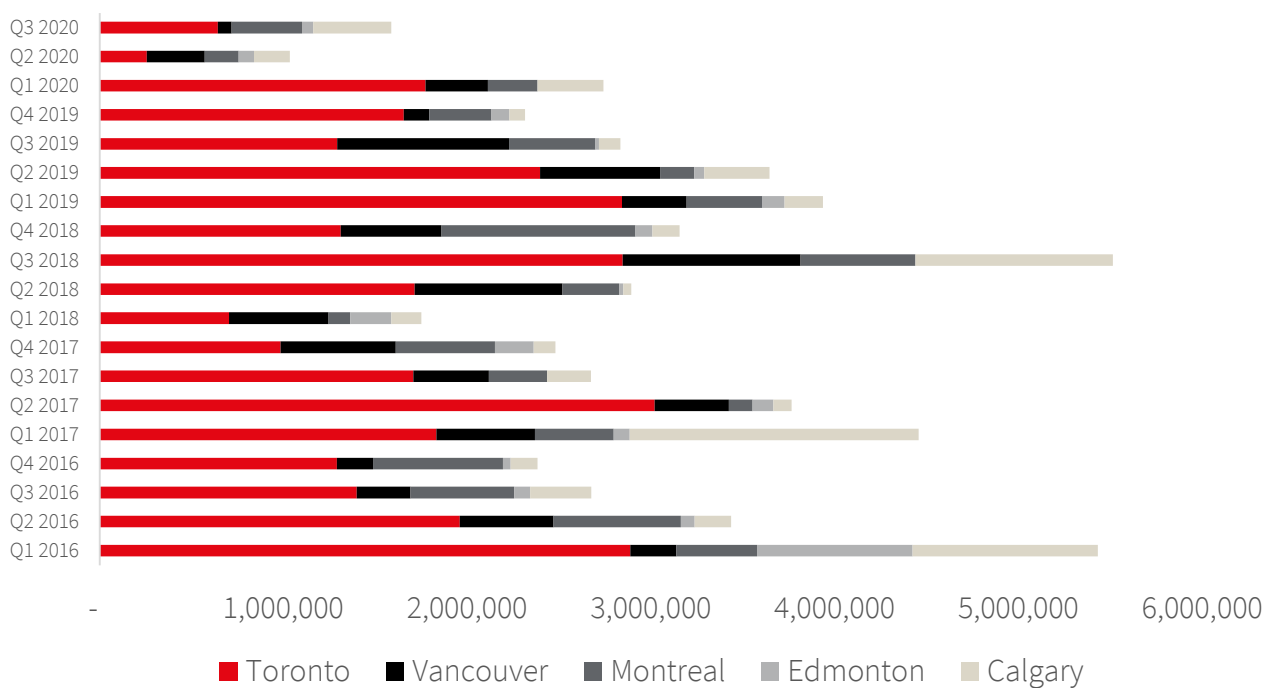


However, market confidence continues to remain cautious, with most large-scale and long-term tenant requirements awaiting further stability not only in the office market but in the healthcare and economic landscapes. Moreover, although most markets have seen average net rents grow significantly during Q2, net rental growth has now decelerated to a complete stop in Q3, with national average net rent holding steady quarter-over-quarter at \$18.24 per square foot. Total pre-leasing remains high across new developments in Canada at 75.5 percent but as we approach impending deliveries in 2021, the market

looks towards the backfill space those tenants will leave behind in existing inventory. Expect the rise of new COVID-19 cases to temper tenant sentiment as we enter the fourth quarter and the impending winter season, drawing out the length of time between initial space searches and the final inking of transactions. Should market conditions continue through the fourth quarter, expect movement on effective rents in the short-term as landlords look to offer increased inducements before reducing face rents.

Large block leasing saw a slight return in Q3 but remained historically low

Large block (20,000 s.f. or over) leasing volumes



Source: JLL Research



Downtown Toronto

All eyes focus on sublet space as gross positive absorption and leasing trickle back into market

- The sublease market continued to grow but remained a small portion of the market, currently at 1.3 percent of market inventory.
- Leasing activity is slowly returning to market, with a total of over 300,000 square feet leased across nine transactions in Q3.
- Carttera announced Portland Commons, a new 550,000-square-foot speculative development slated to break ground in October.

Downtown Toronto has seen its second quarter of increasing vacancy since the beginning of the COVID-19 lockdown back in March. Although more muted than the occupancy losses of nearly 1 million square feet in Q2, Downtown Toronto saw quarterly negative absorption of 500,262 square feet. With YTD net absorption of over -1.4M SF, previous gains during 2019 have now been negated in the space of two quarters, as the market returns to H1 2018 levels of vacancy. Tellingly, average net rent growth has decelerated after the spike seen in the previous quarter, currently up 0.6 percent QoQ as compared to 7.3 percent QoQ in Q2.

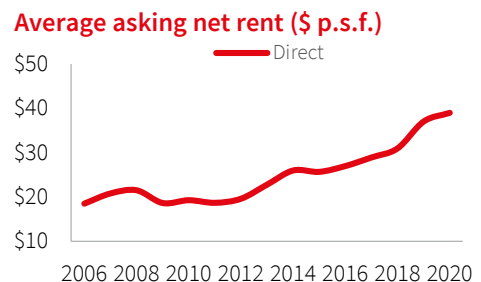
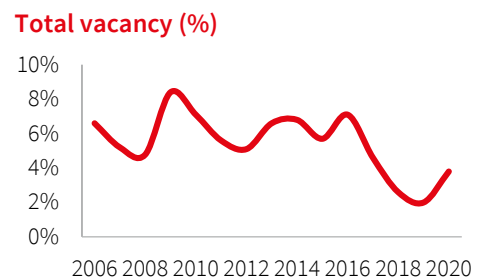
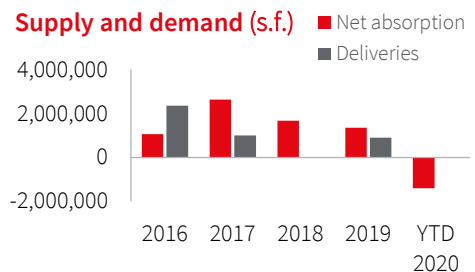
Much of the increase in vacancy can still be attributed to new sublet spaces. Over 230,000 square feet of sublet space has gone vacant this quarter, for a total of 956,234 square feet of vacant sublet space. This represents a threefold increase since the end of Q1 but sublet vacancy as a percentage of total inventory remains just 1.3 percent. The average size of available sublet spaces is also small, currently averaging 8,553 square feet across over 300 spaces.

Gross positive absorption, although not enough to negate market occupancy losses, did accelerate this quarter, with nearly 300,000 square feet of occupancy gains across 47 properties. Compare this to the 20,365 square feet absorbed across six properties in Q2. Leasing activity was up as well, with nine transactions equal to 20,000 square feet or more, totaling 300,033 square feet, including l'Université de l'Ontario français' lease of 62,000 square feet at 9 Lower Jarvis St and the Ombudsman of Ontario renewing 33,000 SF at 483 Bay St.

Outlook

Downtown Toronto is starting to see increasing activity, a promising indicator after the near-complete stall in Q2. However, we remain conservative in our position, given the recent spike in new COVID-19 cases in the city. Tenants previously looking for space are slowly returning to the market but expect an extended space search and information gathering process as tenants continue to face the challenges of re-entry and long-term planning amidst the pandemic.

Fundamentals	Forecast
YTD net absorption	-1,405,893 s.f. ▼
Under construction	10,216,013 s.f. ▲
Total vacancy	3.8% ▲
Sublease vacancy	956,234 s.f. ▲
Direct asking gross rent	\$65.94 p.s.f. ►
Sublease asking gross rent	\$54.78 p.s.f. ►
Concessions	Increasing ▲





GTA West

No major shift in the western suburban market as occupiers postpone longer term decisions

- Leasing activity totaled 238,158 SF across 7 deals greater than 10,000 SF in Q3, with renewals accounting for 70.0 percent of all deals.
- No major shift in vacancy as it edged up 10 bps to 13.5 % in Q3 2020.
- Average gross rental rates remained stable quarter-over-quarter but average net rental rates are up 4.0 percent year-over-year.

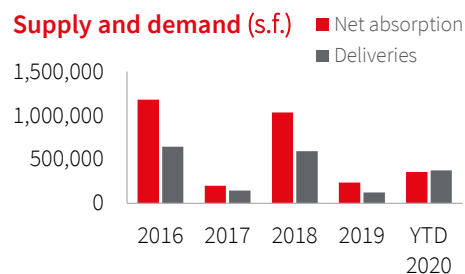
Roughly 6 months into the pandemic, the GTA West office market remains stable as total vacancy slightly edges up 10 basis points to 13.5 percent in the third quarter. No major shift in vacancy indicates that the large corporate occupiers are still weighing their future real estate decisions, and some are opting for short-term renewals instead. For instance, Kellogg Canada Inc. renewed 55,000 SF at 5035 Creekbank Road and Tetra Tech renewed 31,000 SF at 6035 Argentia Road. Some supply additions are beginning to materialize as a few occupiers have decided to sublet a portion of their current footprint including Pepsi subleasing 44,000 SF at 2105 Matheson Blvd E, Bayer Canada subleasing 26,426 SF at 2910 Matheson Road, and GE subleasing 25,000 SF at 1919 Minnesota Court. We expect more large blocks to return to the market in the coming quarter. However, the impact of space added to the market in Q3 was largely offset by positive absorption from McKesson Canada occupying their new 250,000-square-foot space at 2300 Meadowvale Blvd, resulting in the overall 15,662 square feet of negative net absorption.

Leasing activity was minimal, though includes Pace Law leasing 23,000 SF at 191 The West Mall and a labour fund associated with LiUNA leasing 24,300 SF at 1315 N Service Road. The outlier among them was SunGard Availability Services who sold 1800 Argentia Road (80,000 s.f.) to a private investor and leased back the building for 15 years. On the development front, Spark Power Group broke ground on a new development beside their current location at 1315 N Service Road which will be their new head office. The new Bullfrog-powered office space, totaling 40,000 SF, is scheduled for completion in 2022.

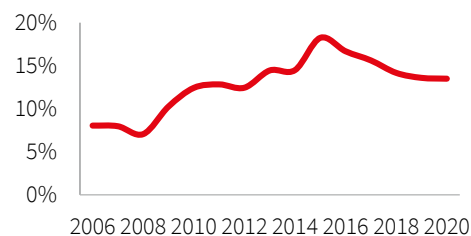
Outlook

As corporate occupiers reevaluate the right size for their long-term needs amid the economic downturn, we foresee more sublease space hitting the market by the end of the year as occupiers optimize their real estate costs as a short-term bridge to attaining their evolving long-term real estate strategies.

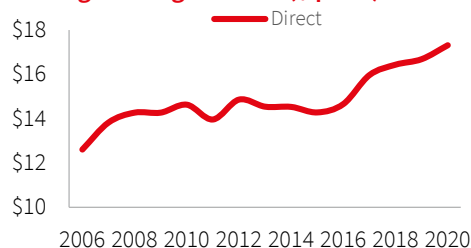
Fundamentals	Forecast
YTD net absorption	357,891 s.f. ▼
Under construction	299,326 s.f. ▼
Total vacancy	13.5% ▲
Sublease vacancy	533,891 s.f. ▲
Direct asking gross rent	\$31.82 p.s.f. ►
Sublease asking gross rent	\$27.48 p.s.f. ►
Concessions	Stable ►



Total vacancy (%)



Average asking net rent (\$ p.s.f.)



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GTA North East

Vacancy edges up but rental rates remain stable

- The GTA North East office market posted 405,534 square feet of negative net absorption, the highest quarterly loss since Q2 2009.
- Total vacancy rose to 10.3 percent market wide, up 90 bps quarter-over-quarter and 40 bps year-over-year.
- Despite low levels of leasing activity, landlords are holding firm on gross rental rates as they remain unchanged QoQ at \$32.28 per square foot.

While the impact of COVID-19 is not yet over, the GTA North East office market saw a shift in office fundamentals in the third quarter. The market recorded 405,534 square feet of negative net absorption, the highest quarterly loss since Q2 2009. This was due to numerous sublease spaces totaling 142,783 SF and direct spaces totaling 262,751 SF returning to the market. As a result, total vacancy increased 90 basis points quarter-over-quarter to 10.3 percent in Q3. However, vacancy remains 20 basis points below the historic highs in 2009.

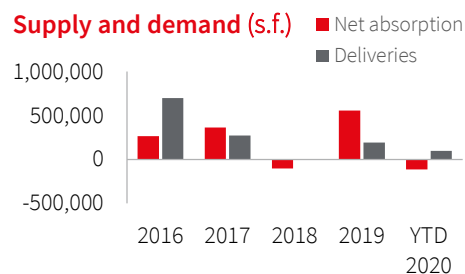
Leasing activity was considerably low with no new deals signed greater than 20,000 square feet in the third quarter. A few smaller transacted deals include Garda World leasing 16,661 SF at 150 Ferrand St, Robert Half Canada Inc renewing 11,263 SF at 5140 Yonge St and Facedrive Inc leasing 8,800 SF at 100 Consilium Place.

Construction of York University's Markham campus officially began this quarter. The new ten-storey, state-of-the-art campus is scheduled to open in the fall of 2023. The campus is expected to be an anchor institution in fueling future growth within the vibrant York region.

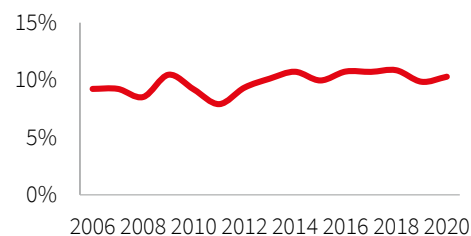
Outlook

As organizations are embracing 'hybrid' work-from-home models and taking a cautious approach for their long-term office space needs, demand is slowly trickling back into the market, with large users including Google and Facebook recently doubling down on their commitment to the GTA market. Furthermore, York University's new Markham campus and the \$250 million donation to University of Toronto, in support of health science, healthcare innovation, and health education, are expected to act as catalysts to strengthen the labour market and investments across the region. That said, the GTA North East office market will likely start to regain some strength moving forward into 2021. However, expect a slow return as uncertainty continues to pervade the market.

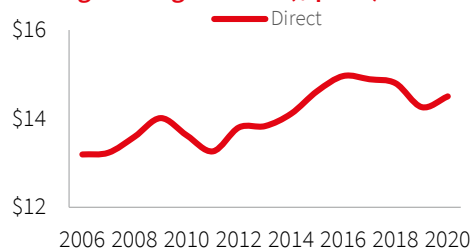
Fundamentals	Forecast
YTD net absorption	-113,421 s.f. ▼
Under construction	0 ►
Total vacancy	10.3% ▲
Sublease vacancy	554,538 s.f. ▲
Direct asking gross rent	\$32.28 p.s.f. ►
Sublease asking gross rent	\$33.88 p.s.f. ►
Concessions	Increasing ▲



Total vacancy (%)



Average asking net rent (\$ p.s.f.)



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Ottawa

Consequences of COVID-19 begin to materialize with increasing vacancy and new sublet space

- Most submarkets in Ottawa experienced occupancy losses in the third quarter, save for Byward Market, Centretown, and Kanata.
- Subleases overwhelmingly drove the increase in vacancy, with nearly 213,000 SF of new vacancies.
- However, the market remained at historically low levels of vacancy, well below the previous peak of 12.7 percent in Q2 2017.

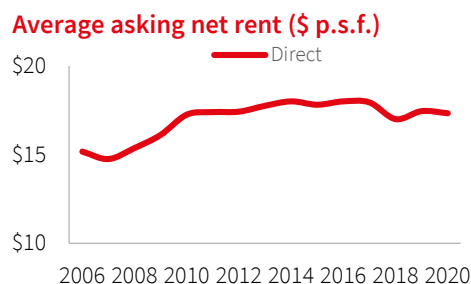
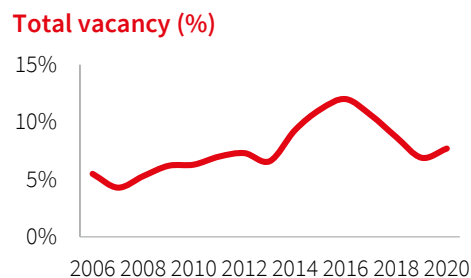
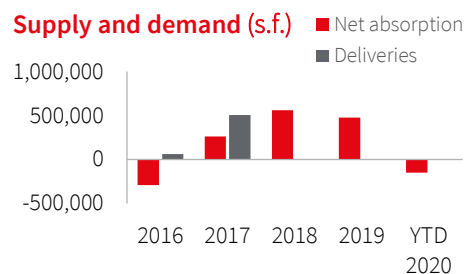
The Ottawa market is beginning to show the effects of the COVID-19 pandemic. Vacancy moved up 70 basis points quarter-over-quarter, currently up to 7.7 percent. As in most major markets, the brunt of this new vacancy is due to subleases, whether they are new vacant subleases or subleases that were available prior to the pandemic but have now gone vacant amidst low levels of leasing activity. Only Byward Market, Centretown, and Kanata posted middling positive absorption.

The market added a total of 212,926 SF of vacant sublet space this quarter, representing a 90.4 percent increase from Q2. Compare this to the 76,556 SF of new direct vacancy added to market, a 3.0-percent increase QoQ. In fact, direct vacancies in Downtown actually decreased slightly since Q2, absorbing just under 6,000 square feet. However, new subleases are also overwhelmingly concentrated in Downtown, where over 53.0 percent of vacant sublets are currently located. Of note, this includes Shopify's 170,000-square-foot sublease at 150 Elgin St. However, Shopify will remain a downtown technology firm as the firm consolidates its operations at their 350,000-square-foot site at 234 Laurier Ave.

Outlook

Although we've seen a shift in momentum, Ottawa remained a stable market in Q3. Rents remained stable through the third quarter with no movement in average asking net rents. The current vacancy rate remains well below the 10-year average of 8.8 percent. The delta is even more pronounced compared to the previous peak of 12.7 percent in Q2 2017. However, in discussion with tenants, we do expect more subleases to come to market in the coming quarters. As tenants navigate re-entry and operational planning, the vigor and intensity with which demand returns to the market remains to be seen, especially considering the compressed real estate demand from the federal government in recent months.

Fundamentals	Forecast
YTD net absorption	-150,553 s.f. ▼
Under construction	459,845 s.f. ►
Total vacancy	7.7% ▲
Sublease vacancy	448,568 s.f. ▲
Direct asking gross rent	\$33.35 p.s.f. ►
Sublease asking gross rent	\$33.74 p.s.f. ►
Concessions	Stable ►





Montréal

Momentum shifts in Montréal's office market with negative absorption in third quarter

- The sublease market continues to grow with 436,120 square feet of new sublet availability added to market in the third quarter.
- Leasing activity came to a near halt with a limited amount of transactions over 20,000 square feet in Montréal.
- Montréal reports negative 735,494 square feet of net absorption, the first quarter of negative absorption since Q1 2018.

After a relatively resilient second quarter, Montréal's office market fundamentals are beginning to show signs of a shift in momentum amidst the COVID-19 pandemic. In the third quarter, Montréal's total vacancy rate rose 50 basis points to 9.9 percent, still 90 basis points below the 10-year average. This was the result of 735,494 square feet of negative net absorption, mainly in the downtown Class B segment of the market. This was the first quarter of negative net absorption in Greater Montréal since Q1 2018.

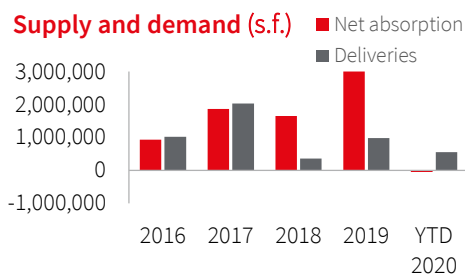
Much of the new availabilities coming to market in the third quarter were comprised of new sublease space, with 436,120 square feet of new sublease space added. This brought total available sublet space to nearly 1.4 million square feet, representing 10.6 percent of total available space across the Montréal office market. Most of the sublease activity was led by big blocks of space added by technology and professional services companies. Combined, the two industries represent over 60.0 percent of all available sublease space in the Downtown and Midtown Tech Hubs.

Throughout the Greater Montréal Area, three buildings were completed and delivered in the third quarter, representing 554,681 square feet of new supply. There is still 3,905,679 square feet under construction of which 1,467,000 square feet is located Downtown. Downtown new supply is 68.0 percent pre-leased, leaving 464,361 SF of space still available. With leasing activity expected to remain at low levels through 2021, this incoming supply could result in a 1.0 percent increase in Downtown vacancy.

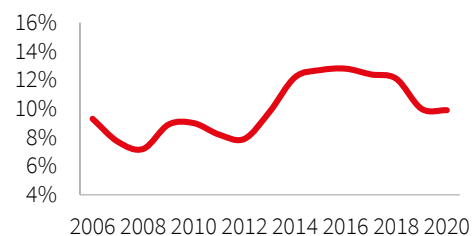
Outlook

Direct implications of the COVID-19 crisis is resulting in a large influx of sublease space coming to market and we expect this trend to continue. Together with subdued leasing activity and short-term sublease expiries, expect vacancy to rise in the coming months. We anticipate the slowed leasing activity to spill over into 2021, resulting in market conditions favoring the fewer active tenants looking for space.

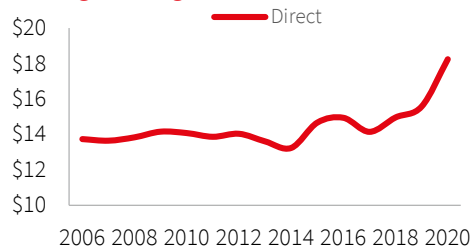
Fundamentals	Forecast
YTD net absorption	-54,260 s.f. ▼
Under construction	3,905,679 s.f. ►
Total vacancy	9.9% ▲
Sublease vacancy	1,395,721 s.f. ▲
Direct asking gross rent	\$33.38 p.s.f. ►
Sublease asking gross rent	\$27.01 p.s.f. ▼
Concessions	Stable ▲



Total vacancy (%)



Average asking net rent (\$ p.s.f.)



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Montréal

Le marché des bureaux de Montréal laisse entrevoir des signes de changement tel qu'une absorption trimestrielle négative

- Le marché de la sous-location poursuit son ascension, 436 120 pieds carrés de nouveau locaux ayant été ajoutés sur ce marché au cours du troisième trimestre.
- L'activité de location s'est pratiquement immobilisée, très peu de transactions de plus de 20 000 pieds carrés ayant été conclues à Montréal au cours du troisième trimestre.
- Le marché des bureaux de Montréal a enregistré une absorption nette négative de 735 494 pieds carrés. Il s'agit du premier trimestre affichant une absorption négative depuis le premier trimestre de 2018.

Après avoir fait preuve d'une certaine résilience au cours du deuxième trimestre, les indicateurs du marché des bureaux de Montréal laissent entrevoir des signes de changement dus à la pandémie de COVID-19. Au troisième trimestre, le taux d'inoccupation global du marché montréalais a augmenté de 50 points de base, pour atteindre 9,9 %, ce qui est tout de même 90 points de base de moins que la moyenne des dix dernières années. Cette hausse est due à l'absorption nette négative de 735 494 pieds carrés, principalement dans le segment des immeubles de bureaux de catégorie B situés dans le sous-marché du Centre-ville. Il s'agit du premier trimestre affichant une absorption nette négative depuis le premier trimestre de 2018.

Une part significative des nouveaux locaux disponibles ayant été ajoutés sur le marché au cours du troisième trimestre, soit 436 120 pieds carrés, sont offerts en sous-location. Cet ajout a porté la superficie totale disponible en sous-location à près de 1,4 million de pieds carrés, soit 10,6 % de la superficie totale disponible sur le marché des bureaux de Montréal.

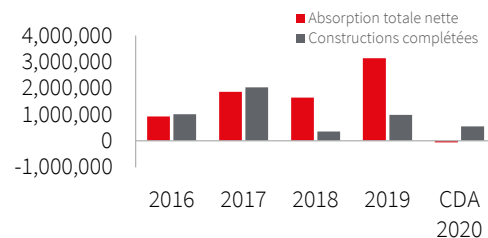
Dans la grande région de Montréal (GRM), la construction de trois immeubles de bureaux, représentant dans leur ensemble 554 681 pieds carrés, a été achevée au cours du troisième trimestre. Au total, 3 905 679 pieds carrés d'espaces de bureaux sont actuellement en construction dans la GRM, dont 1 467 000 pieds carrés au Centre-ville. Les nouveaux locaux offerts au Centre-ville affichent un taux de prélocation de 68 %, ce qui signifie que 464 361 pieds carrés d'espace sont encore disponibles. L'activité de location devant demeurer au ralenti jusqu'en 2021, l'arrivée sur le marché de ces nouveaux immeubles pourrait entraîner une augmentation de 1 % du taux d'inoccupation au Centre-ville.

Perspectives

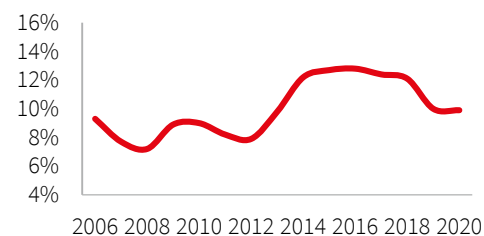
Parmi les conséquences directes de la pandémie de COVID-19, on dénote un afflux important d'espaces offerts en sous-location sur le marché, et cette tendance devrait perdurer. En raison de la faiblesse des activités de location, de l'expiration de nombreux baux de sous-location à brève échéance et des disponibilités à venir, nous nous attendons à ce que le taux d'inoccupation continue d'augmenter. Nous prévoyons en outre que le ralentissement de l'activité de location se prolongera jusqu'en 2021, ce qui se traduira par des conditions de marché favorables pour le nombre restreint de locataires qui sont activement à la recherche de locaux de bureaux.

Fondamentaux	Prévisions
Absorption totale nette CDA	-54 260 p.c. ▼
En construction	3 905 679 p.c. ►
Taux d'inoccupation global	9,9 % ▲
Taux d'inoccupation pour sous-locations	1 395 721 p.c. ▲
Moyenne des loyers bruts	33,38 \$/p.c. ►
Moyenne des loyers bruts pour sous-locations	27,01 \$/p.c. ▼
Allocation	Stable ▲

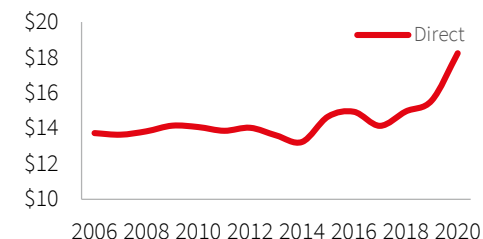
L'offre et la demande (pi. ca.)



Taux d'inoccupation global



Moyenne des loyers nets (\$/pi. ca.)



Edmonton

Edmonton office market settles into New Normal

- Downtown and Suburban Class A and AA markets totaled 43,448 square feet of positive net absorption for the quarter.
- Combined Class A and AA Downtown asking net rents averaged \$21.92 per square foot while Class B averaged \$13.92 per square foot.
- Slate Asset Management purchased Sun Life Place for \$32.5M.

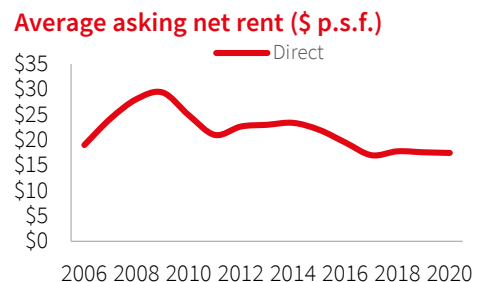
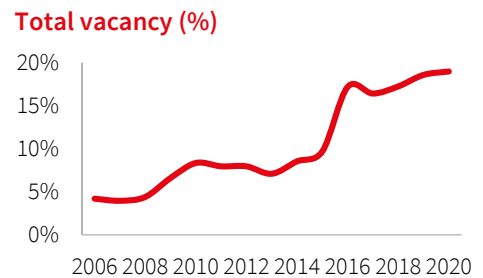
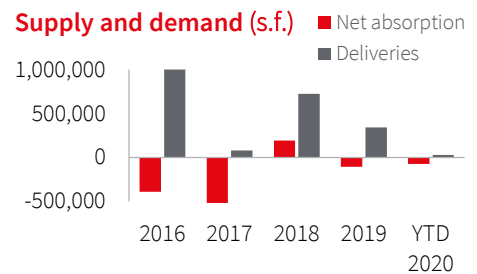
Edmonton net occupancy dipped back into the red for Q3 with the market posting 57,843 square feet of negative net absorption for the quarter, leaving year-to-date net occupancy losses at 75,900 square feet. Given these developments, downtown vacancy increased by 0.5 percent, from 18.8 percent in Q2 to 19.3 percent in Q3, while suburban vacancy remained steady, quarter over quarter, at 18.6 percent in Q3. Sublease availability increased by 15.3 percent from 518,149 square feet in Q2 to 597,266 square feet in Q3.

Leasing activity slowed down in Q3, with the exception of several notable transactions. Alberta Health Services completed a 19,300-square-foot renewal at 9925 109 St NW in the Government District. Meanwhile, in the Financial District, We Know Training subleased 11,022 square feet in 103rd Street Centre, Richardson GMP Limited subleased 21,132 square feet in Manulife Place, and Tabula Rasa Firm Management Inc leased 16,335 square feet in Bell Tower. Average asking gross rent has increased by 0.8 percent, quarter over quarter, from \$32.98 per square foot in Q2 to \$33.26 per square foot in Q3.

Outlook

Despite elevated levels of uncertainty in Alberta due to the ongoing pandemic and energy market turmoil, high quality Edmonton office product is still attractive to investors. The recent sale of Sun Life Place to Slate Asset Management for \$32.5M is a testament to long term value in the Edmonton market. Another A-class asset looking for a new owner includes the recently delivered Raymond Block, on a prominent corner in the Whyte Avenue submarket, currently listed for \$70M. But with that said, not all office assets are created equal. The Provincial Government decided to demolish the Legislature Annex Building in the Government District, relocating about 300 civil servants occupying the building to other locations throughout the city.

Fundamentals	Forecast
YTD net absorption	-75,900 s.f. ►
Under construction	0 s.f. ►
Total vacancy	19.0% ►
Sublease vacancy	600,389 s.f. ▲
Direct asking gross rent	\$33.26 p.s.f. ►
Sublease asking gross rent	\$23.16 p.s.f. ▼
Concessions	Stable ▼





Downtown Calgary

Marginal increase in Downtown vacancy is not reflecting the full impact of COVID-19

- Total vacancy increased 30 bps from Q2 as companies continue to restructure in the face of COVID-19 and the stagnation of oil prices.
- Downtown Calgary is recording an increasing presence of technology tenants, as two transactions totaling over 100,000 SF in First Tower took place in Q3.
- COVID-19 implications on space requirements are expected to continue until year end.

Downtown Calgary recorded 130,264 square feet of negative net absorption in Q3, bringing year-to-date absorption to a total of -435,510 square feet. This has pushed total vacancy to 25.1 percent. Average direct asking gross rent in Q3 for Class A and C has ticked up slightly, up to \$35.23 and \$20.11 respectively. Class B assets, which saw the most significant occupancy losses in Q3, has decreased to \$23.76.

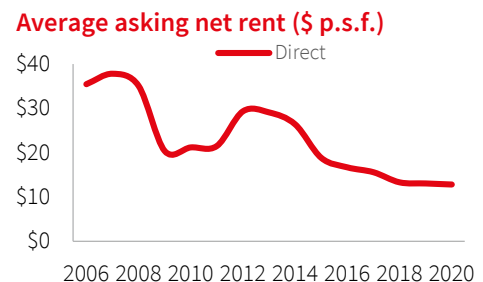
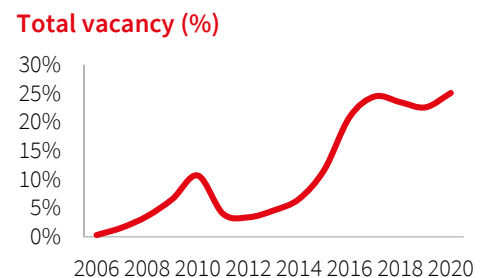
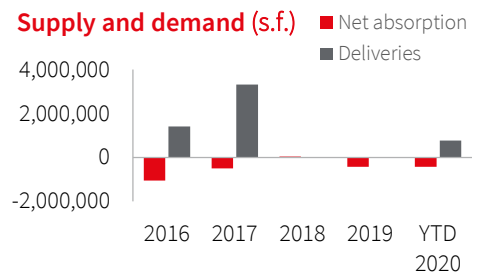
As COVID-19 restrictions eased, downtown tenants began the slow return to the office. Using data sourced through key card activations in downtown buildings, a prominent landlord tracked occupancy levels of different industries. Oil and gas tenants varied from as low as 6.3 percent of its employees returning, and up to 65.2 percent; the average was 32.6 percent. An accounting firm had 6.0 percent of employees return while a legal firm saw 46.2 percent of their workforce return. Banking tenants saw an average of 12.1 percent of employees consistently working from the office.

Although downtown is still recording negative absorption, technology tenants have been taking advantage of the historically low rental rates and inducement packages of Class A and Trophy buildings. First Tower which was recently renovated under the ownership of Hines, transacted three floors to tech company Symend, and one floor to tech company Useful.

Outlook

In the oil and gas sector, JLL expects to see sublease space continue returning to the market as tenants undergo further restructuring to save capital or as a result of mergers and acquisitions. The impact of COVID-19 is requiring firms to look at the digital workplace and how they currently utilize their physical office space. With the emergence of a potential vaccine, we expect to see an increase in the return of employees to the downtown core. JLL will continue to work with landlords to track different industries as they establish safety guidelines on the percentage of employees able to return to the office.

Fundamentals	Forecast
YTD net absorption	-435,510 s.f. ▼
Under construction	0 s.f. ►
Total vacancy	25.1% ▲
Sublease vacancy	2,658,998 s.f. ▲
Direct asking gross rent	\$30.36 p.s.f. ▼
Sublease asking gross rent	\$26.50 p.s.f. ▼
Concessions	Stable ►



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Suburban Calgary

Taza development project offers incredible opportunity for Calgary's Southwest expansion

- Suburban vacancy is up to 17.5 percent, fueled by an increase in sublease space availabilities.
- Alison College continues to expand, adding 13,000 square feet of office space to its existing footprint.
- The inauguration of Calgary's South Ring Road and the official launch of the Taza development offer interesting opportunities for Calgary's Southwest expansion.

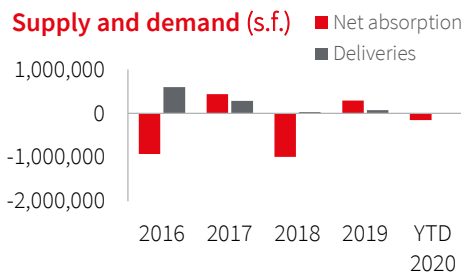
Suburban vacancy rates continued to increase reaching 17.5 percent at the end of Q3 2020. The quarter's negative net absorption of 334,437 square feet pushed YTD net absorption into negative territory, erasing Q1 gains. This trend was fueled by an increase of sublease vacancy from tenants temporarily downsizing during a fragile economic recovery amidst the COVID-19 pandemic. Large deals in the suburbs included a 6,000-square-foot transaction by Makita Healthcare Technologies at 110 12th Ave SW and a 15,000-square-foot lease by accounting firm KMSS at Hotel Arts. In addition to deals done in Q1 and Q2, Alison College continued to expand in 3016 5th Ave NE with an additional 13,000-square-foot transaction.

In other news, Calgary's South Ring Road has been finally opened for traffic. The long-awaited highway expansion was first proposed in the 1960s and now opens up the city's Southwest region for future development. During the highway's inauguration ceremony, the Tsuut'ina nation, in partnership with real estate developer Candarel, officially launched Taza. The \$12B development is the largest of its kind in North America. With flexible zoning and simplified development processes, it provides a unique opportunity for new developments in the city. Taza is aiming to develop 25M square feet of residential, retail and office space in the next 25 years.

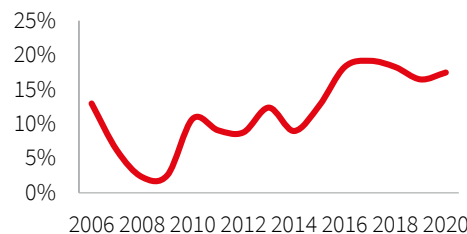
Outlook

The approval of Bill 23 temporarily reduced the number of commercial real estate evictions in Alberta. As the effect of this measure begins to dissipate, we expect vacancy rates to rise in the following quarters. Landlords are expected to face steep competition from premium sublease space coming to market. Favorable lease conditions and reduced rents will be key to attract new tenants.

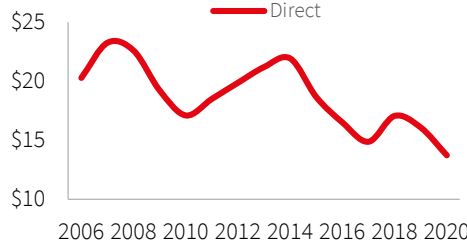
Fundamentals	Forecast
YTD net absorption	-147,197 s.f. ▼
Under construction	787,584 s.f. ►
Total vacancy	17.5% ▲
Sublease vacancy	680,177 s.f. ▲
Direct asking gross rent	\$28.65 p.s.f. ▼
Sublease asking gross rent	\$17.86 p.s.f. ▼
Concessions	Increasing ▲



Total vacancy (%)



Average asking net rent (\$ p.s.f.)





Metro Vancouver

Sublet availability grows by 98.0% YTD but market sits firmly in landlord-favorable territory for now

- Since the end of 2019, sublet availability has increased by 98.0 percent for Metro Vancouver and 347.0 percent for Downtown Vancouver.
- Total vacancy over the same period has risen only 90 bps to 6.0 percent for Metro Vancouver and only 200 bps to 5.7 percent for Downtown Vancouver.
- SNC Lavalin vacated 81,637 SF at 745 Thurlow St, marking one of the largest blocks of new vacant space. However, the space has already been leased and will be occupied later in the year.

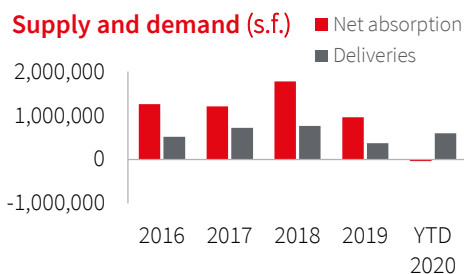
Total vacancy continues to increase as Metro Vancouver deals with the fallout of COVID-19, increasing by 120 bps year-over-year (YoY) and now sits at 6.0 percent. Downtown Vancouver has seen a more substantial increase, with its vacancy increasing by 272 bps to 5.7 percent. These numbers still represent a market favoring landlords. Asking rates have proven to be resilient, with a market-wide YoY increase of 5.9 percent, and a moderate decline of 2.4 percent for Downtown. It seems that institutional landlords are not compelled to reduce rates as most have a diversified portfolio of quality tenants. The potential for increased insolvencies as a result of a declining economy remains a salient concern. Moreover, the notable decrease in leasing velocity may result in some ownership groups being more aggressive to maintain occupancy levels in the short term.

Conversely, for tenants looking for short-term space, there are many immediate value opportunities in the market. This is a result of sublet availability increasing by 98.0 percent YTD for the Metro market and a staggering 347.0 percent for the Downtown market. Sublet availability in the Downtown market now accounts for 39.0 percent of total availability. One reason for this increase is due to a number of tenants testing the market as their workforce continues to work from home for the foreseeable future and existing premises sit empty. Sublandlords are exploring the opportunity to sublease their space and relieve some pressure on their finances. This has provided a rare opportunity to several tenants who have been looking for large block spaces with high quality improvements in place. This quarter alone, RECBC took two floors at 750 West Pender (18,908 SF) and B2Gold leased 3 full floors (45,169 SF) in 666 Burrard.

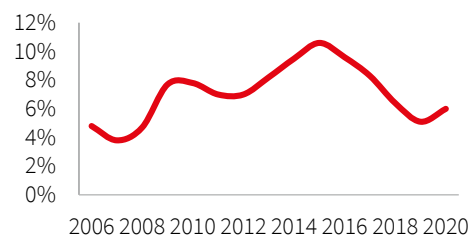
Outlook

As with the rest of the Canada, the outlook for the Vancouver office market will depend primarily on the duration and severity of the COVID-19 pandemic. Current market fundamentals have remained strong. However, we continue to pay close attention to sublet and direct lease availability over the coming quarters for signs of possible increasing or decreasing stress on tenants and landlords alike.

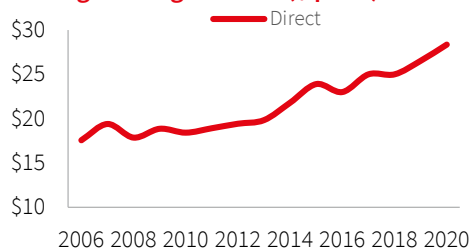
Fundamentals	Forecast
YTD net absorption	-36,812 s.f. ▼
Under construction	6,453,166 s.f. ▼
Total vacancy	6.0% ▲
Sublease vacancy	809,314 s.f. ▲
Direct asking gross rent	\$44.66 p.s.f. ►
Sublease asking gross rent	\$46.66 p.s.f. ►
Concessions	Rising ▲



Total vacancy (%)



Average asking net rent (\$ p.s.f.)



For more information, contact:

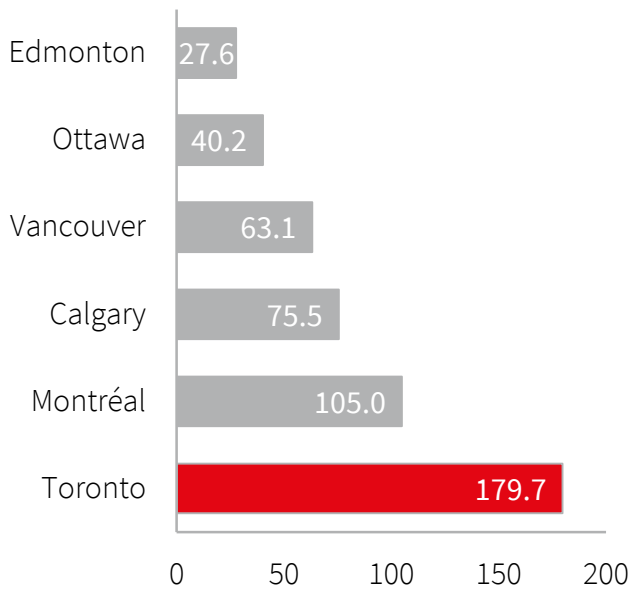
Adam Davison | adam.davison@amjll.com



Appendix

Inventory

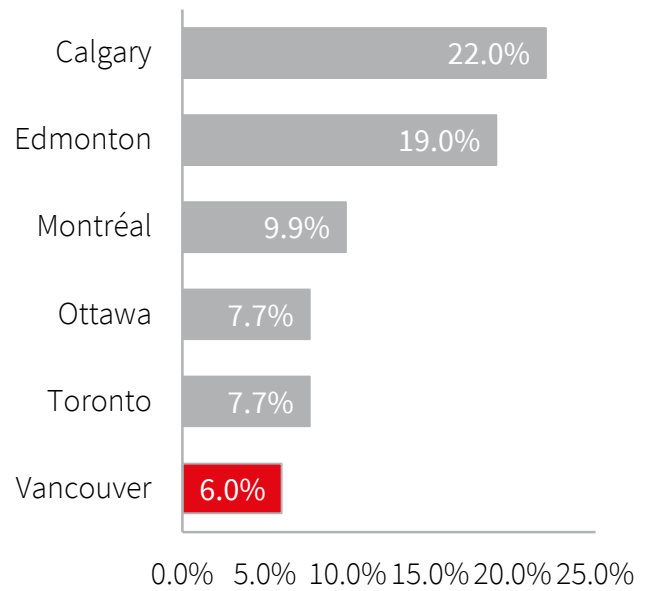
Square feet (millions)



Source: JLL Research

Total vacancy rates by market

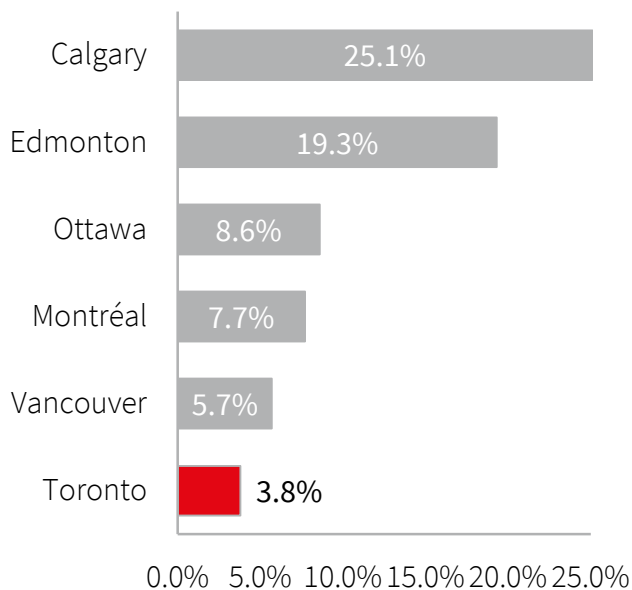
Vacancy rate (%)



Source: JLL Research

Total vacancy rates by market, CBD

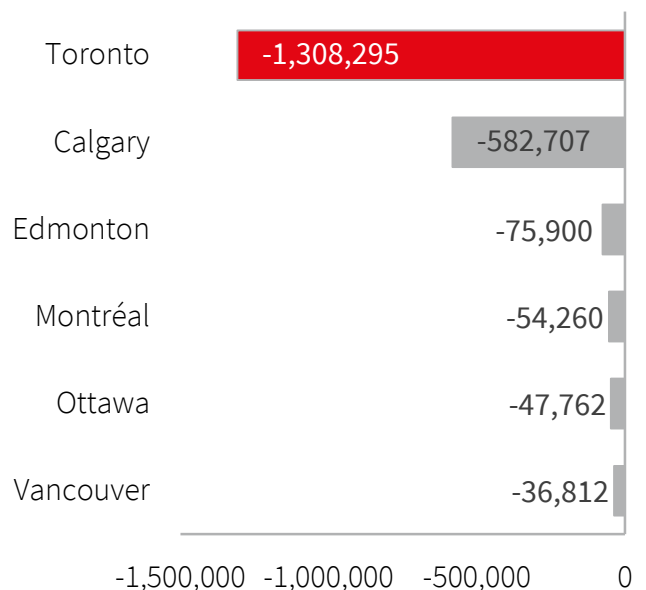
Vacancy rate (%)



Source: JLL Research

YTD net absorption by market

Square feet

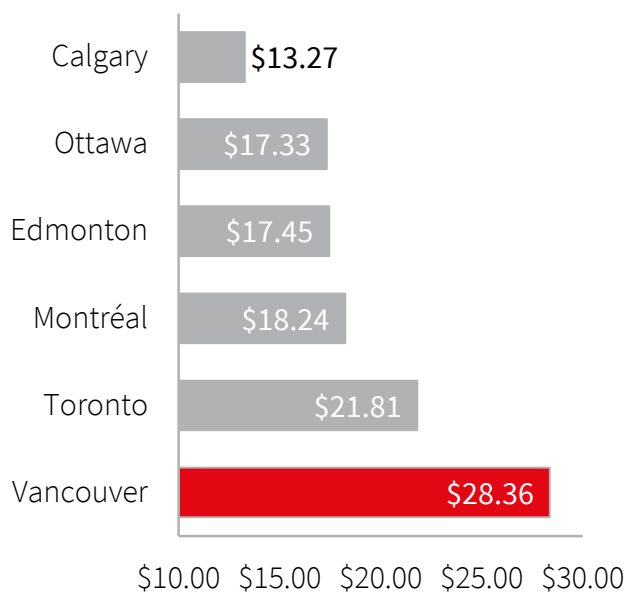


Source: JLL Research



Average net rent by market

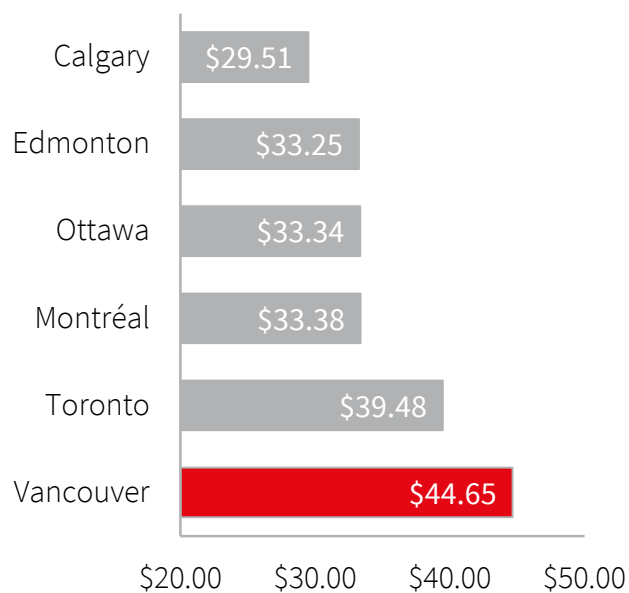
Dollar per square foot (\$ p.s.f.)



Source: JLL Research

Average gross rent by market

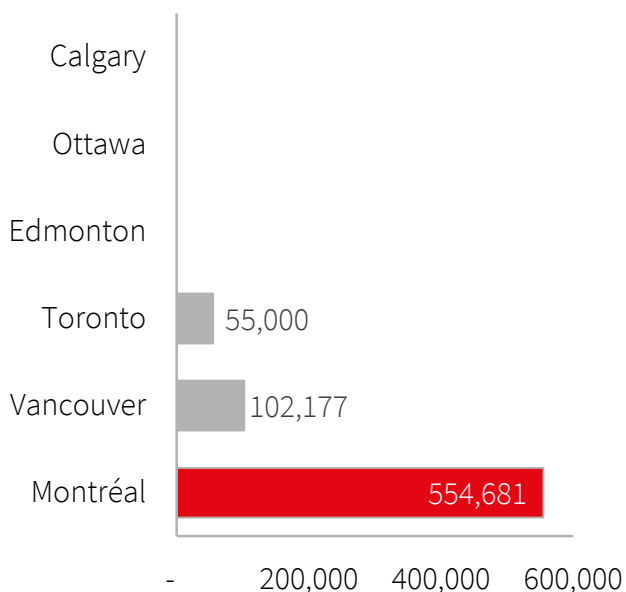
Dollar per square foot (\$ p.s.f.)



Source: JLL Research

Quarterly completions by market

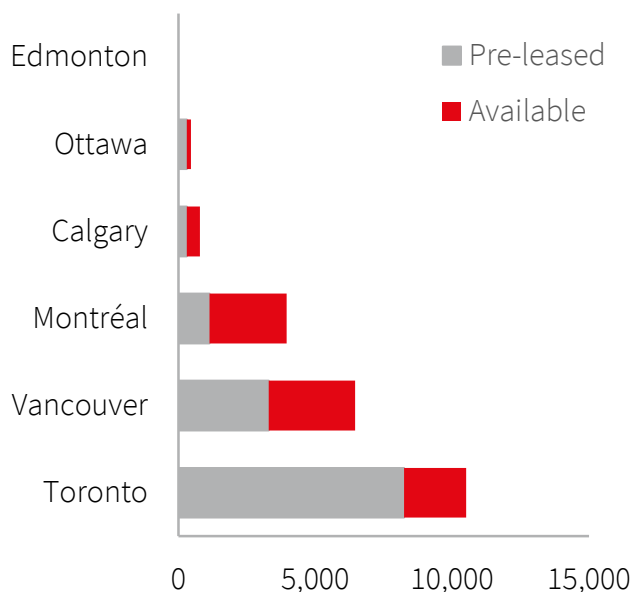
Square feet



Source: JLL Research

Under construction and pre-leased by market

Square feet (thousands)



Source: JLL Research



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